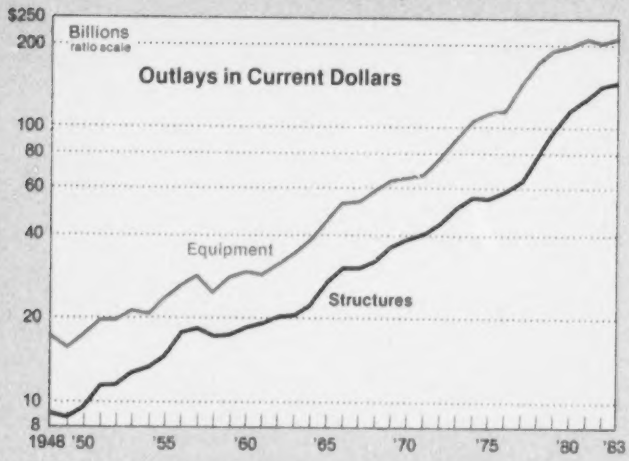
Business Capital Investment

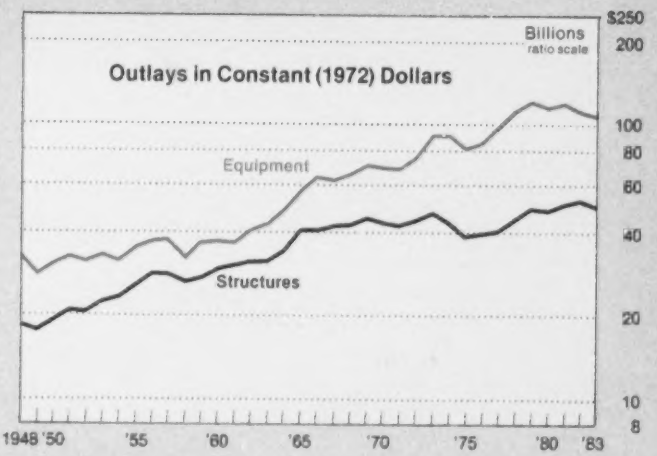
Economic Road Maps
No. 1954

July 1983

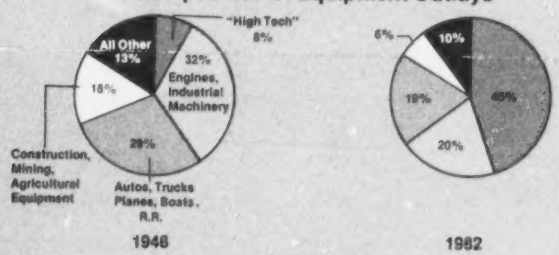
Last year, nonresidential fixed investment totaled $348 billion, or 11.4% of GNP, but most of the outlays were for replacement of fixed capital that was ending its useful life; only about 2% of GNP consisted of net additions to the capital stock. Averaged over the years to smoothe out business cycle swings, net additions to the capital stock have persistently run at about 3% of GNP (see chart on page 2 of Road Map 1955). The growth rates at the bottom of this page are calculated between peak years of the business cycle in order to minimize cyclical effects. By far the fastest growing major investment category is what is here loosely called "high tech" equipment. This includes computers, instruments and communications equipment but not such items as computer-controlled machine tools. Last year, "high tech" equipment accounted for 45% of equipment outlays, compared with 8% in 1948.

Private, Nonresidential Fixed Investment

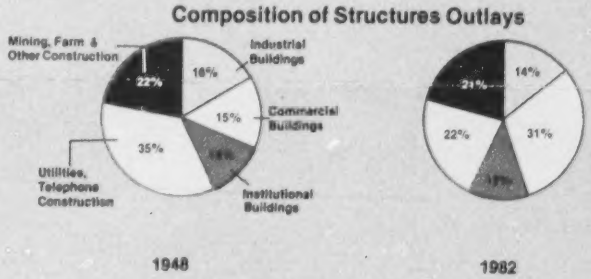




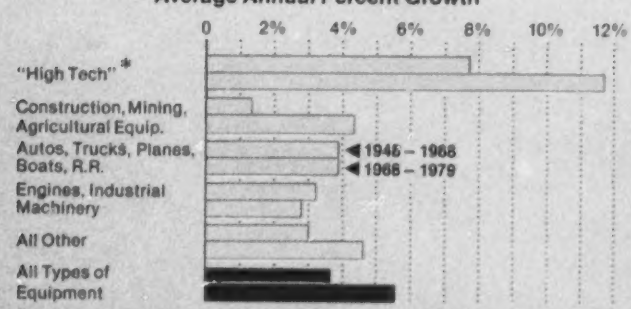
Composition of Equipment Outlays



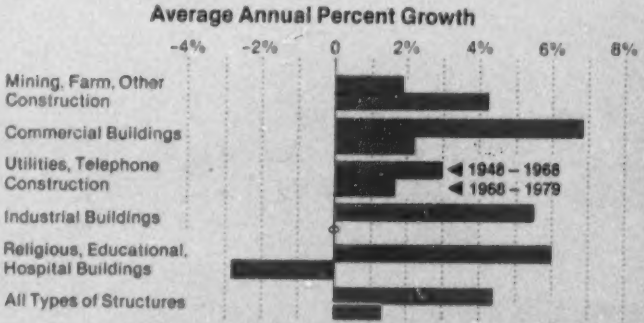
Composition of Structures Outlays



Average Annual Percent Growth

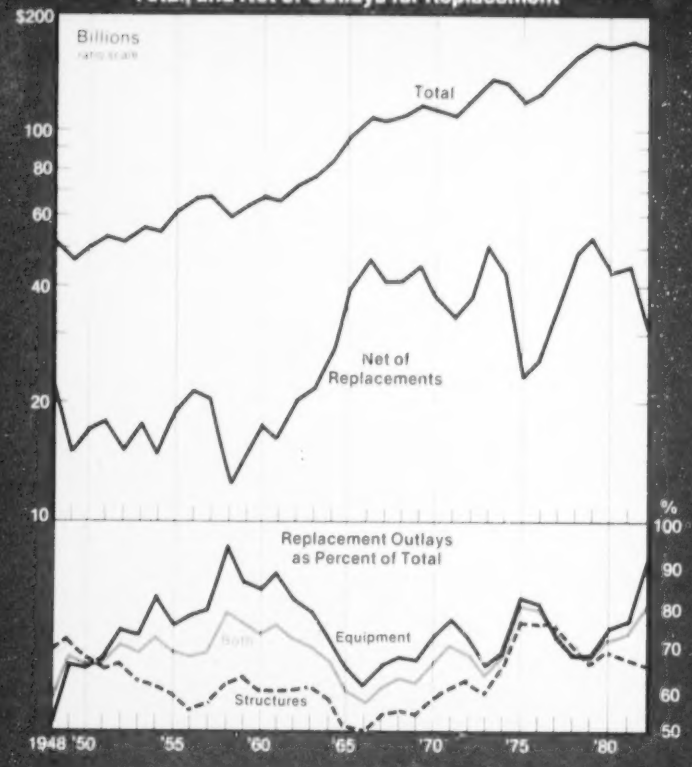

0 2% 4% 6% 8% 10% 12%
"High Tech" *
Construction, Mining, Agricultural Equip.
Autos, Trucks, Planes, Boats, R.R.
Engines, Industrial Machinery
All Other
All Types of Equipment
◀ 1948 – 1968
◀ 1968 – 1979

Average Annual Percent Growth

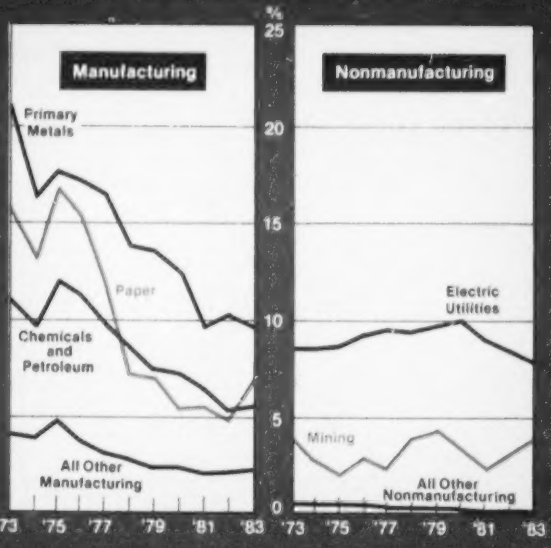


*"High Tech" equipment comprises computers, other office equipment, instruments, and communications equipment.

Nonresidential, Fixed Investment Outlays in Constant (1972) Dollars— Total, and Net of Outlays for Replacement



Outlays for Pollution Abatement as Percent of Total Fixed Investment Outlays

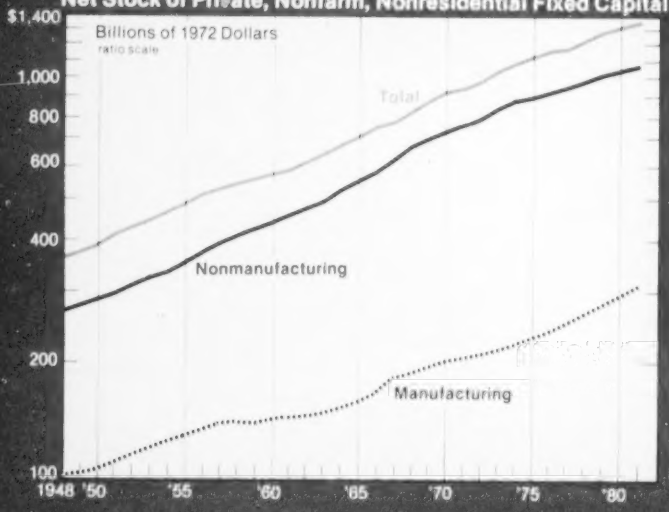


Since the mid-1960's, there has been essentially no change in the real volume of fixed investment outlays (upper left chart). These net outlays are the fuel for growth in the stock of fixed capital. The chart immediately below shows growth rates of the capital stock in real terms, and growth rates of capital/labor ratios, which have substantial influence on labor productivity. In manufacturing, the stock and the capital/labor ratio rose briskly in the 1970's. However, in some industries a substantial share of the growth was in capital employed for pollution abatement, that is, for the production of cleaner air and water rather than marketable products (see top right chart).

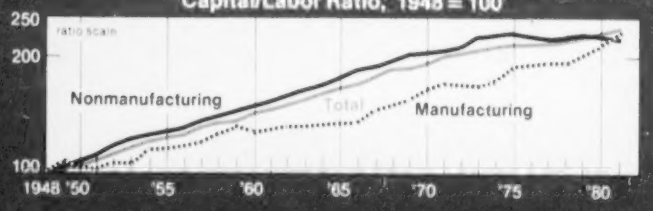
Lora S. Collins

Sources: Bureau of Economic Analysis; The Conference Board.

Net Stock of Private, Nonfarm, Nonresidential Fixed Capital

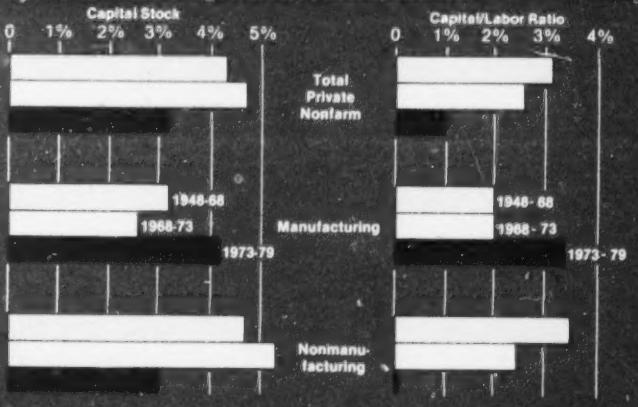


Capital/Labor Ratio,* 1948 = 100



* Constant dollar net capital stock divided by total manhours available, including those of the unemployed.

Average Annual Percent Growth



ECONOMIC ROAD MAPS

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Prices for Quantities of this chart will be supplied on request to Information Service.

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